USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

Date: 6/11/2007

GAIN Report Number: DR6013

Dominican Republic

Solid Wood Products

Annual

2007

Approved by:
Jamie Rothschild, Agricultural Attaché
U.S. Embassy

Prepared by:
Carlos G. Suarez, Sr. Agricultural Specialist

Report Highlights:
The U.S. hold a solid position (60%) in the market with softwood lumber exports equal to 143,000 cubic meters with some competition from South America. The U.S. has about a quarter of the market share for softwood panel products with heavy competition from South America and Asia. Central and South America have a stronger participation in the hardwood market due to the D.R. preference for tropical hardwoods such as Mahogany. The U.S. has potential to increase its market share in all wood products, particularly the semi processed ones with the elimination of a three percent basic tax on the products from the United States. This tax reduction resulted from the implementation of the DR-CAFTA trade agreement and should allow a competitive advantage over products from other sources.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

Table of Contents

Executive Summary 3
Forrest Situation and Outlook 4
Solid Wood product Situation and Outlook 4
Trade 5
Overview and Outlook 5
Competition 5
MARKET SEGMENT ANALYSIS 6
Construction Sector 6
Furniture and Interior Sector 7
Material Handling Industry 7
Residential House Segment 7
Hotel Construction 8
Government Infrastructure and Development 8
STATISTICAL INFORMATION 8

Executive Summary

Reconstruction in a hurricane risk area is one of the major factors driving additional demand for forest products in Dominican Republic. The country experiences periodically all time high exports of U.S. wood products the following year after the devastating effects of hurricanes. U.S. export data show for 2006 over US$ 57 million exports of wood products out of a total of approximately US$ 118 million.

Economic stability and an extraordinary growth in GDP (according to The Economist May 2007 report) data: an estimated 5.5 percent in 2007-2008) guarantee a higher demand for imported wood products for all sectors, particularly softwood lumber and panel products. Preliminary U.S. trade data for 2007 (January-March) shows that U.S. exports of soft/treated lumber and panel/plywood products to country are down a third when compared to the same period in 2006. Importers indicate that the reduction in imports may be related to limited availability of lumber in the United States.

The DR-CAFTA agreement implemented on March 1, 2007 eliminates the basic tax on wood products, reducing it from three percent to zero. This allows a competitive edge for U.S. products over other wood sources.

Forrest Situation and Outlook

The Dominican Republic has a high population density among Latin American countries (190 inhabitants/km^2). Of a total population of 9.1 million people, near half live in rural areas and are beginning to feel the extraordinary growth in GDP (an estimated 5.5 percent for 2007-2008, according the Economist's May report) as the economy stabilizes. Unfortunately the rural poor continue to depend heavily on forests resources for fuel wood, used both as firewood and charcoal. In addition, subsistence agriculture creates additional pressure to the Dominican Republic's limited and decreasing forest resources.

Starting in the late 1800s, Dominican Republic's forest resources were threatened mainly by land clearing for sugar production and other agricultural uses, commercial timber harvesting, and the collection of wood for fuel. Beginning in the 1960s, as supplies dwindled, the country became a net importer of wood. In an effort to preserve its remaining forests, the government banned the harvest of all forest products, however, enforcement of this ban is less than perfect. Today, the remaining forests tend to be found in small patches, with very few large expanses remaining beyond those in remote areas and/or under the protection of national parks.

Solid Wood product Situation and Outlook

Limited forest resources and the ban on logging have made the Dominican Republic an important importer of wood products. The annual U.S. exports of softwood lumber to the Dominican Republic has varied widely in recent years with a solid five year average of US$ 44 million per year (2002-2006). The historical import high was reported in 1999, a year after hurricane George's reconstruction efforts. After the initial surge in reconstruction, imports gradually leveled off and reached a low in 2004. The country's current economic recovery during the last two years has created additional demand for wood product infrastructure.

The encouraging trend in consumption has continued positive, reflecting a 24 percent increase in 2006 over 2005. Although it is early to say, this trend has shown signs of dramatic change during the first quarter of 2007 when trade numbers from U.S. Census data show for the first quarter of 2007 show a 33 percent decrease over the same period in 2006. According to some importers, the limited availability of forest products in the United Sates may be related to this reduction in consumption.

Construction projects, which use mainly softwood and plywood, occupy an important role in Dominican economy. Although interest rates have come down from above 30 to a 12-14 percent per year, sixty percent of the construction is privately financed, while the rest are built as government projects. In the actual building though, the vast majority of urban construction is cement based, while wood is used extensively in concrete molding, roof base (joists for tin sheet roofing), doors, windows, and kitchen and bathroom cabinets and furniture making. The use of hardwoods other than mahogany is not significant. Although there is great potential in using less expensive hardwoods, very little has been done to explore and expand this market.

Because of the lack of natural wood product resources, the Dominican Republic has a low import duty of wood products. There was a basic three percent tax on wood products, plus a 16 percent value added tax (ITBI). As a result of the recently implemented DR-CAFTA (Dominican Republic and Central America Free Trade Agreement) on March 1, 2007, the United States wood products are exempted from this basic tax.

Some of the major wood products importers are: Valiente Fernandez, La Universal, Mercantil del Caribe, MADECO, MADESOL, INDOMACA and Ferreteria Americana.

Trade

Overview and Outlook

Reliable data are not available, but major importers indicate that the wood market in the Dominican Republic is divided into 62 percent, softwood lumber (pine), 20 percent hardwood (mostly Mahogany and Cedar from Central and South America) and the rest is panel products (plywood).

The individual tables for 2006 and 2007 were revised from previous estimates, as the economy stabilized and the construction sector picked up. The wood product market size in the Dominican Republic was estimated at US$ 118 million for 2006 of imported goods with about 358 thousand-m^3 (cubic meters), including softwoods, plywood and hardwoods. Forest product use is directly dependent on concrete housing projects, including hotels, private and public housing projects and infrastructure development. The Dominican Republic prefers U.S. products for quality and holds over half of the market share in softwood products with some competition from South America.

According to the industry, the local banking system began to use the recently established national pension funds in its construction efforts. In spite of the initial slowdown experienced in the first quarter of 2007, the Dominican Republic continues to occupy the forth position as the most important trade market in U.S. softwood and treated lumber. It is also the third-largest export market in the Western Hemisphere and the largest importer from the recently implemented DR-CAFTA countries. Revised 2006 data show, U.S. exports of softwood lumber to the Dominican Republic were about 160 thousand-m^3. Expectations for 2007 anticipate the same level of demand for U.S. products.

The Dominican Republic has a softer position as a panel product importer with 25 percent of the market, with heavy competition from less expensive products from South America and Asia. Previous estimates for 2006 were revised to reflect the country's economic stability and the activation of the construction sector. U.S. exports of panel products in 2006 were almost 15 thousand-m^3 valued at US$ 6 million. The country is the 16th U.S. most important trade partner in panel products the world.

In hardwood products, there is a historic tradition, difficult to overcome, of utilizing mahogany and cedar in the Dominican Republic. U.S. market-share in insignificant (less that 1.6 thousand-m^3) in a 46 thousand-m3 market. There is room to grow in the non-traditional construction sector such as the hotel construction industry, which uses international standards that allow the use of other varieties of woods. Hardwood flooring, molding and veneers could present faster installation and perhaps less expensive products when compared to the hardwoods traditionally used. U.S. exports surpassed US$ 1.8 million.

There are no restrictions on wood imports in the Dominican Republic. All woods (softwood, hardwood and plywood) had a basic tariff of 3 percent on CIF Value. The implementation of DR-CAFTA in March 1, 2007, eliminated the basic tax. Other taxes include a 16 percent value-added tax (ITBIS).

The furniture industry in the Dominican Republic is not well developed or integrated. There are only a few organized furniture manufacture companies, such as COMUDID, S.A. (Constructora de Muebles, Diseños y Decoraciones), Decoraciones y Muebles, C x A, HECO Muebles and VON C x A.

Competition

The softwood market in the Dominican Republic valued at about US$ 60 million in 2006, continues to be dominated by U.S. products (over 60% market share) with competition from South America, mainly Brazil (25 percent) and Chile (10 percent). In a US$ 24 million market, the U.S. panel products hold only 25 percent of the Dominican total market value of US$ 6 million, with strong competition with less expensive South American: Brazilian (20%) and Asian products from China (33%) and Taiwan (22%) products. The US$ 33 million hardwood market is almost evenly divided between Mahogany and Cedar coming from Peru (54 percent), Brazil (34 percent), United States (8 percent) and Nicaragua (4 percent).

For many years U.S. softwood and panel products in the Dominican Republic have enjoyed recognition of having high quality. Nonetheless, there have been recent informal industry reports indicating that some traders are importing lower quality products and advertising them as U.S. products. Import tax advantage of U.S. products over the competition from other sources (DR-CAFTA advantage) will help neutralize these fraudulent practices.

MARKET SEGMENT ANALYSIS

Southern Yellow Pine (SYP) is the softwood lumber of choice in most of the Caribbean region. In terms of volume, the Dominican Republic is the fourth largest importer in the world of U.S. SYP, with almost US$ 34 million imports in 2006, only after Canada, Mexico and Japan. The Dominican Republic has shown considerable reduction during the first quarter of 2007 of imported softwood and treated lumber from United States valued over US$ 7 million, down a third when compared to the same period last year. During 2006, congressional election was held in the country, with some of the political campaign associated to construction projects. In addition, the recently implemented national pension plan began using some of the resources in private housing projects, which have extended some of the private construction efforts.

Construction Sector

The Dominican construction sector’s main use for SYP plywood in construction is formwork for casting concrete. SYP lumber is used in building roof structures and some smaller “temporary” housing in rural areas. Treated lumber is commonly imported in the country, but not as much as other countries in the region because of several pressure treating facilities in operation (about twenty percent of the imported softwood is treated). According to industry sources, about 60 percent of the softwood and treated lumber is used in the construction of new facilities with extensive use of SYP in less expensive interior sectors of housing constructions.

Large-scale developers are more likely to have a distinct preference for SYP than other solid wood products, based on their quality. A good indicator of current and future major development plans in the tourism sector, which continue to demand better quality lumber for their construction requirements. Not so encouraging was last year’s news release reporting an increase in price of cement and steel. Portland cement factories raised prices (from RD$ 85 to RD$ 125 [US$ 2.62 to US$ 3.84]) in their 100 weight unit (100 lb bag) and steel metal rods were up from RD$ 1,400 to RD$ 1,750. Nonetheless in March 2007, the elimination of a three percent basic tax on U.S. products will help to support, a comparative advantage over all other wood product imports from other sources.

There are a handful of retail outlets, which appear as smaller versions of U.S. retailers like Home Depot but small hardware stores are popular in the Dominican Republic. However, since these stores mainly cater to individual homeowners and small businesses, they tend to carry more price competitive wood products, mainly Chilean, Honduran and Brazilian softwoods.

In order to stay competitive, some Dominican construction companies attend annual trade shows in the United States (including CONEXPO in Las Vegas, Nevada and MIACON in Miami, Florida). A source of indirect information on the market is the ASONAHORES (Dominican Association of Hotels and Restaurants), which represents 60-70 percent of the hotels in the Dominican Republic with information of new development projects in the sector. These are important sources of information and sources where larger contractors handle budgets and can consider better quality U.S. products and SYP in their projects or lower quality from other sources.

Furniture and Interior Sector

The softwood products used for furniture and cabinetry vary uses 20 to 25 percent of the total imports from country. The Dominican Republic has a larger base of manufacturers when compared to other markets in the region and do not import as much manufactured and/or unassembled furniture. SYP products are also the softwood of choice in the interior manufacturing sector. About half of the hardwood imported by the Dominican Republic, such as Mahogany is imported from Brazil (40%) and Peru (60%), while the other half, cedar is mostly from Brazil. Hardwoods are used in furniture and interiors sector.

Material Handling Industry

Foreign pests present in Solid Wood Packing Material (SWPM) has become a worldwide problem that requires attention from the exporting nations, particularly now that international standards have been created to control these materials. These restrictions are making some of the exporting countries fumigate the SWPMs or consider alternative more expensive materials, such as plastic, for their export pallets. Regulations to control the spread of pests in (SWPM), such as crates and pallets have been fully publicized in the Dominican Republic. Although they are not currently enforced for the local movement of products, they are required for products moving to the United States. The Secretary of Agriculture has authorized several companies to operate pallet construction facility (treat and/or fumigate) as self certificated for the U.S. market. According to Secretary's officials the eight authorized companies are meeting U.S. SWPM.

Residential House Segment

There continues to be a shortage of residential houses in Dominican Republic, particularly in the middle and lower income segments of the population. The stabilization of the economy and the reduction of the interest rates in the banks (from above 30 to 12-14 percent) have triggered an increase in private and public residential construction. Although construction materials have increased in the last fourteen months (over 25 percent in steel and cement), it has slowed down the rate of new construction but, as mortgage rates have also come down and the banking system has additional funds, the construction rate is expected to recover promptly. There are many private contractors operating in the residential housing market, targeting the entire socioeconomic spectrum. The upper and upper-middle-income segments exhibit a preference for larger apartments, while the lower quintile occupies smaller low-income apartments and small detached units in the outskirts of the cities. With respect to construction materials you can say that there are several major factors to be considered: economic, geological and psychological variables. The geographic location of the country dictates the necessity to build with construction materials sufficiently durable to withstand repeated hurricanes and possibly flooding and earthquakes. The majority of residential houses in the country are constructed with block and steel, followed by a combination of blocks and tin and wooden roofs.

Hotel Construction

According to the Ministry of Tourism, in 2006, tourism accounts for 24 percent of the GDP with 674 hotels and over 60,000 rooms in service and construction plans for another 9,500. Within the hotel construction segment, hardwood products are used extensively in interior design and decorating. Hardwood veneers, molding and hardwood floors are used more in new hotel facilities. Softwoods (plywood and form wood) are used during the building construction process.

The rapid expansion in the Dominican hotel sector and the continued renovation of existing properties will create a respectable demand for both hardwood and softwood products over the short to medium term. Major hotel projects that are being undertaken or will be undertaken in the short-term, will increase Dominican Republic's lumber wood products demand.

Government Infrastructure and Development

The Government of the Dominican Republic has been actively supporting a wide variety of projects in the construction sector, particularly as 2006 was a congressional election year. Generally these projects consume a reasonable volume of softwood and plywood products. The major projects that are currently been undertaken, or are advanced in conceptualization, include:

- The mega transportation project of a train/subway going across (North/South) Santo Domingo.
- A second (East-West bound) line studies was announced this week.
- The conclusion of three major highways linking San Pedro de Macoris (southeast) with La Romana, San Cristobal to Bani (Southwest) and Santo Domingo/San Pedro to Sanchez/Samana (Norhteast).
- The privatization of operations at the major airports, which included extensive renovations and the operation of the new Santiago and La Romana international airports.

Recent newspaper articles indicate that recent flooding occurred during the second quarter of 2007, will probably require government intervention in reconstruction of approximately twelve small bridges on regional roads throughout the country.

STATISTICAL INFORMATION

Secretaría de Estado de Turismo. Web site www.dominicana.com.do or www.gdominicanrepublic.com

See TRADE TABLES: Softwood Lumber, Softwood Plywood and Tropical Hardwood (next page)
Source: U.S. Census Bureau, Foreign Trade Statistics, and Post and industry estimates.

PSD Table

Country **Dominican Republic**
Commodity **Softwood Lumber** (1000 CUBIC METERS)

	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2006	01/2007		01/2006	01/2008	MM/YYYY
Production	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Imports	0	0	238	0	0	190	0	0	200	(1000 CUBIC METERS)
Total Supply	0	0	238	0	0	190	0	0	200	(1000 CUBIC METERS)
Exports	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Domestic Consumption	0	0	238	0	0	190	0	0	200	(1000 CUBIC METERS)
Total Distribution	0	0	238	0	0	190	0	0	200	(1000 CUBIC METERS)

Source: U.S. Census Bureau, Foreign Trade Statistics, and Post and industry estimates.

PSD Table

Country **Dominican Republic**
Commodity **Softwood Plywood** (1000 CUBIC METERS)

	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2006	01/2007		01/2006	01/2008	MM/YYYY
Production	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Imports	0	0	50	0	0	37	0	0	42	(1000 CUBIC METERS)
Total Supply	0	0	50	0	0	37	0	0	42	(1000 CUBIC METERS)
Exports	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Domestic Consumption	0	0	50	0	0	37	0	0	42	(1000 CUBIC METERS)
Total Distribution	0	0	50	0	0	37	0	0	42	(1000 CUBIC METERS)

Source: U.S. Census Bureau, Foreign Trade Statistics, and Post and industry estimates.

PSD Table

Country **Dominican Republic**
Commodity **Tropical Hardwood Lumber** (1000 CUBIC METERS)

	2006 Revised			2007 Estimate			2008 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		01/2006	01/2006		01/2006	01/2007		01/2006	01/2008	MM/YYYY
Production	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Imports	0	0	22	0	0	23	0	0	25	(1000 CUBIC METERS)
Total Supply	0	0	22	0	0	23	0	0	25	(1000 CUBIC METERS)
Exports	0	0	0	0	0	0	0	0	0	(1000 CUBIC METERS)
Domestic Consumption	0	0	22	0	0	23	0	0	25	(1000 CUBIC METERS)
Total Distribution	0	0	22	0	0	23	0	0	25	(1000 CUBIC METERS)

Source: U.S. Census Bureau, Foreign Trade Statistics, and Post and industry estimates.